

CALIFORNIA STATE TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Approval of Minutes of the February 3, 1999
Investment Committee, Open Session

ITEM NUMBER: 3

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: March 3, 1999

INFORMATION: _____

PRESENTER(S): Chairperson

Proposed minutes of the Investment Committee Meeting held in open session February 3, 1999 are submitted on the following pages.

**PROPOSED
MINUTES OF THE
INVESTMENT COMMITTEE MEETING
OF THE
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
FEBRUARY 3, 1999
OPEN SESSION
ROBYN D. MILLER BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA**

COMMITTEE MEMBERS PRESENT

Gary Lynes, Chairperson
Yvonne Gallegos Bodle
George Fenimore
Marty Mathiesen
Lillian Raffel
Emma Zink
Phil Angelides, State Treasurer
Kathleen Connell, State Controller
Richard Whitmore, representing Superintendent
of Public Instruction, Delaine Eastin
Floyd Shimomura, representing State Director
of Finance, Tim Gage

ALSO PRESENT

James Mosman, Chief Executive Officer
Patrick Mitchell, Chief Investment Officer
Elleen Okada, Director of Investment Admin. and External Relations
Chris Waddell, Chief Counsel
Kristin Faust, Chief Deputy State Treasurer
Michael Picker, Deputy State Treasurer
Chris Drevalas, Treasury Program Manager
Ed Derman, DCEO, External Affairs and Program Development
Doug Wills, Staff Counsel
Mitch Pleis, Director of Real Estate
Real Desrochers, Director of Alternative Investments
Michelle Cunningham, Director of Fixed Income
Steven Tong, Director of Internal Equities
Richard Rose, Investment Officer
Allan Emkin, Pension Consulting Alliance
Nori Gerardo Lietz, Pension Consulting Alliance
Al Clerc, Pathway Capital Management
Doug Le Bon, Pathway Capital Management
Ed Brown, Brown Capital Management
Ron Arnott, First Quadrant
James Miller, Chicago Equity Partners
George Wichman, California Teachers' Association
Edna White, California Retired Teachers' Association
Beverly Carlson, California Teachers' Association

Ellen Logue, Californian Teachers' Association, Retired
Charles C. Girratana, California Teachers' Association
Bill Collins, California Teachers Association
Dorothy Moser, United Teachers Los Angeles, Retired
Mary Ann Avansino, Executive Assistant

A quorum being present, Chairperson Lynes called the open session meeting to order at 9:35 a.m.

I. **ANNOUNCEMENTS** (Item 2)

There were no announcements.

II. **APPROVAL OF MINUTES OF THE JANUARY 13, 1999 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)

MOTION duly made by Mr. Mathiesen, seconded by Mr. Fenimore, and carried to approve the minutes of the January 13, 1999 Investment Committee, Open Session as presented.

III. **EXTERNAL EQUITY - PANEL ON U. S. EQUITY MARKET** (Item 4)

Mr. Mitchell introduced Messrs. Brown, Arnott and Miller. The panelists presented information on the valuation of the U.S. equity market, active versus passive management, and value versus growth.

Ms. Connell arrived at the meeting at 9:55 a.m.

The panelists engaged in a group discussion with the Committee.

Ms. Connell exited the meeting at 10:50 a.m. Mr. Buenrostro assumed representation for the State Controller.

Chairperson Lynes recessed the meeting at 11:05 a.m.
The meeting reconvened at 11:15 a.m.

Mr. Angelides introduced Kristin Faust, the new Chief Deputy State Treasurer.

IV. **ALTERNATIVE INVESTMENT – PERFORMANCE BENCHMARK** (Item 5)

Messrs. Desrochers and Clerc reviewed the written report and presented issues relating to selection of an appropriate benchmark for alternative investments covering the entire term of the investment. Discussion ensued.

MOTION duly made by Ms. Zink, seconded by Mr. Fenimore, and carried to approve a resolution adopting an Alternative Investment performance benchmark as follows: Dollar weighted return for the Russell 3000 Index plus five percent, adjusted for the latest three years contributions at the three month T-bill rate. The private equity vintage year comparison from the Venture Economics' Vintage Year Database will be used for assessing individual partnerships within the portfolio.

V. **LEGISLATION** (Item 6)

Mr. Derman reviewed the Staff analysis of SB105 and the Staff recommendation of a neutral position. Discussion ensued.

MOTION duly made by Mr. Mathiesen to adopt the Staff recommendation of a neutral position on SB105. The motion was not considered, as there was no second.

MOTION duly made by Ms. Raffel and seconded by Mr. Angelides to adopt a support position on SB105. A roll call vote was taken. Mss. Bodle, Raffel, Zink, Messrs. Fenimore, Mathiesen, Angelides, Buenrostro, Whitmore, and Shimomura voted yes. The motion carried.

Chairperson Lynes recessed the meeting at 12:30 p.m.

The meeting reconvened at 1:15 p.m.

Mr. Angelides did not return when the meeting reconvened. Mr. Picker assumed representation for the State Treasurer.

VI. **REAL ESTATE – MODERATE TO HIGH RISK REAL ESTATE STRATEGIES** (Item 7)

Ms. Gerardo Lietz reviewed moderate to high-risk strategies, ownership structures, and CalSTRS' current investments within this risk profile. Discussion ensued.

VII. **GENERAL – INVESTMENT OBJECTIVES TIMELINE** (Item 8)

Mr. Mitchell reviewed the progress report on the 1998/99 Investment Objectives.

VIII. **CREDIT ENHANCEMENT - ACTIVITY STATUS REPORT** (Item 9)

Mr. Rose reviewed the written report.

IX. **REAL ESTATE - ACTIVITY STATUS REPORT** (Item 10)

Mr. Pleis presented the written report and distributed a list of the respondents to the RPF for Real Estate Managers.

X. **ALTERNATIVE INVESTMENTS - ACTIVITY STATUS REPORT** (Item 11)

Mr. Desrochers presented the written report.

XI. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 12)

Mr. Mitchell reviewed the written report and updated return figures as of January 31, 1999 for the following indices: NASDAQ +14.5%, Russell 2000 +1.3%, S&P 500 Index +4.1% and Bloomberg REIT Index -2.5%.

Ms. Cunningham reviewed the progress of the redevelopment of the Home Loan Program and distributed a list of the respondents to the RFI for Home Loan Program correspondents.

Ms. Okada reported that interviews for the RFP for International Equity Managers will be held on February 25th, 26th, and March 5th and 6th. She also reported that the RFP for General Pension Consultant has been released with a final filing date of February 26, 1999.

XII. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 13)

There were no statements from the public.

XIII. **MOVE TO CLOSED SESSION**

Chairperson Lynes recessed the meeting at 2:40 p.m. and reconvened directly into closed session at 2:50 p.m.

XIV. **ADJOURNMENT**

Chairperson Lynes announced that while in closed session, the Committee discussed matters pertaining to investment decisions. There being no further business to conduct, Chairperson Lynes adjourned the meeting at 3:15 p.m.

James D. Mosman, Chief Executive Officer and Secretary to the
Teachers' Retirement Board

Gary Lynes, Chairperson